MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

PEM0034 – ESSENTIALS OF MACROECONOMICS

13th FEBRUARY 2023
2.30 p.m. to 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE** (9) pages including the cover page with **30** Multiple Choice Questions (MCQs) and 2 Structured Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (60 MARKS)

Instruction: Answer all questions in the OMR provided.

1. Classify the following scenario as cyclical unemployment, structural unemployment, frictional unemployment, or an exit from the labour force.

   "Aditi, a high-tech engineer, decides to quit her job and applies for a better-paying job in a multinational company".

   A. Cyclical unemployment since employees searching for new jobs is a common recurrence.
   B. Exit from the labour force since Aditi may not be employed for the duration between her leaving one job and finding another.
   C. Frictional unemployment as a person is frictionally unemployed in between a change in jobs.
   D. Structural unemployment since there is a mismatch between what Aditi is looking for and what her current job offers.

2. The population of a small island nation aged 16 or older is 50,000. The size of the labor force is 40,000. The number of people employed is 35,000. The unemployment rate for this nation is _____.
   A. 12.5%
   B. 10.0%
   C. 30.0%
   D. 34.3%

3. The portion of unemployment that is due to the normal turnover in the labour market is called _____.
   A. structural unemployment
   B. frictional unemployment
   C. cyclical unemployment
   D. the natural rate of unemployment

4. Per capita output is _____ output per worker or productivity.
   A. smaller than
   B. larger than
   C. equal to
   D. none of the above

Continued...

5. Suppose, you are lending money to your friend Julia and you want a real rate of return of 8.00%. Furthermore, you expect the inflation rate to be 3.00%. Which of the following interest rates should you charge?
   A. 5.5%.
   B. 6.5%.
   C. 8.0%.
   D. 11.0%.

6. In the Republic of Priceland, in 2009 the consumer price index was 221.00. In 2010 the index increased to 237.58. Calculate the rate of inflation in Priceland between 2009 and 2010.
   A. 6.00%.
   B. 6.98%.
   C. 7.00%.
   D. 7.50%.

Refer to the information provided in **Exhibit 1** below to answer the question(s) that follow.

Exhibit 1

Employed	14,000 people
Unemployed	3,000 people
Not in the Labor Force	4,000 people

7. Refer to **Exhibit 1**. The labour force equals to
   A. 14,000 people.
   B. 17,000 people.
   C. 18,000 people.
   D. 21,000 people.

8. Refer to **Exhibit 1**. The unemployment rate is
   A. 14.3%.
   B. 16.7%.
   C. 17.6%.
   D. 25.0%.

9. Refer to **Exhibit 1**. The labour-force participation rate is
   A. 66.7%.
   B. 75.0%.
   C. 77.8%.
   D. 80.9%.

Continued...

10. In which of the following conditions is the inflation rate likely to fall and the unemployment rate likely to rise?
    A. hyperinflation.
    B. recession.
    C. boom.
    D. stagflation.

11. An increase in the overall price level is _____.
    A. inflation
    B. deflation
    C. a price index
    D. a recession

12. If the price index in period 2 is 109 and the price index in period 3 is 125, the rate of inflation between period 2 and period 3 is _____.
    A. 8.7%
    B. 9.0%
    C. 14.7%
    D. 16.0%

13. The price of one country's currency in terms of another country's currency is the _____.
    A. terms of trade.
    B. exchange rate.
    C. balance of trade.
    D. currency valuation.

14. Which of the following decreases the price of the dollar relative to the British pound?
    A. a decrease in the supply of dollars.
    B. a decrease in the demand for pounds.
    C. an increase in the demand for dollars.
    D. an increase in the supply of dollars.

15. The record of a country's transactions in goods, services, and assets with the rest of the world is its _____.
    A. capital account
    B. current account
    C. balance of trade
    D. balance of payments

16. The difference between a country's merchandise exports and its merchandise imports is the _____.
    A. balance of payments
    B. capital account
    C. current account
    D. balance of trade

Continued...

17. When a country's exports of goods are less than its imports of goods in a given period, it has a _____.
    A. trade deficit
    B. trade surplus
    C. capital account deficit
    D. current account surplus

18. The manager of the bank where you work tells you that your bank has $5 million in excess reserves. She also tells you that the bank has $300 million in deposits and $255 million dollars in loans. Given this information you find that the reserve requirement must be _____.
    A. 50/255.
    B. 40/255.
    C. 50/300.
    D. 40/300.

Refer to the information provided in **Exhibit 2** below to answer the question(s) that follow.

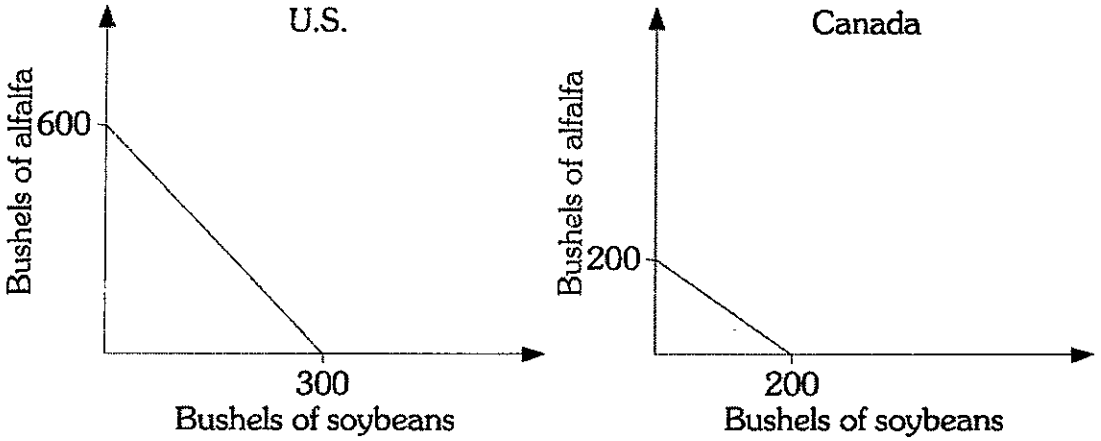

Exhibit 2

19. Refer to **Exhibit 2**. Which of the following statements is *true*?
    A. The United States has both an absolute advantage and a comparative advantage in the production of soybeans and alfalfa.
    B. The United States has an absolute advantage in the production of soybeans and alfalfa, but a comparative advantage only in the production of alfalfa
    C. The United States has an absolute advantage in the production of soybeans and alfalfa, but a comparative advantage only in the production of soybeans
    D. The United States has a comparative advantage in the production of both soybeans and alfalfa, but an absolute advantage only in the production of soybeans.

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20. Refer to **Exhibit 2**. The opportunity cost of producing a bushel of alfalfa in the United States is _____.
A. the same as that in Canada
B. half as much as that in Canada
C. twice as much as that in Canada
D. four times as much as that in Canada

21. Refer to **Exhibit 2**. The opportunity cost of producing a bushel of alfalfa in Canada is _____.
A. half a bushel of soybeans
B. 1 bushel of soybeans
C. 2 bushels of soybeans
D. zero

22. Refer to **Exhibit 2**. Canada has _____ advantage in the production of soybeans and _____ advantage in the production of alfalfa.
A. a comparative; an absolute
B. an absolute; a comparative
C. a comparative; neither a comparative nor absolute
D. neither a comparative nor absolute; neither a comparative nor absolute.

23. According to the theory of comparative advantage, a country exports goods when it can produce those goods _____ than other countries.
A. at a lower opportunity cost
B. at a higher opportunity cost
C. using fewer resources
D. using more resources

24. Thailand has a comparative advantage in rice and an absolute advantage in both rice and cell phones. Indonesia has a comparative advantage in cell phones. According to this scenario _____.
A. Indonesia should import both cell phones and rice
B. Thailand should export both cell phones and rice
C. Thailand should export rice and import cell phones
D. Indonesia should export rice and import cell phones

25. Exchange rates that are determined by the unregulated forces of supply and demand are _____.
A. fixed exchange rates
B. pegged exchange rates
C. managed exchange rates
D. floating exchange rates

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Refer to the information provided in **Exhibit 3** below to answer the question(s) that follow.

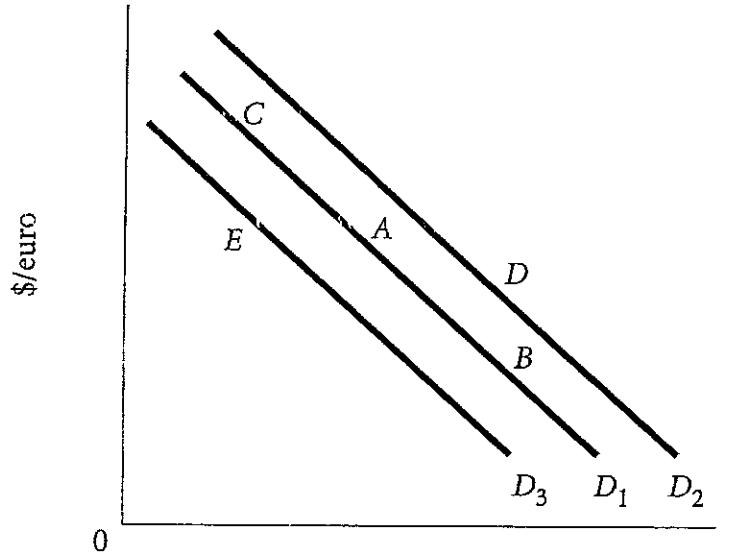

Exhibit 3

26. Refer to **Exhibit 3**. The dollar is currently at Point *A*. A decrease in the price level in the EU causes a movement to Point _____.
    A. E
    B. B
    C. C
    D. D

27. Refer to **Exhibit 3**. The dollar is currently at Point *A*. A depreciation of the euro causes a movement to Point _____.
    A. E
    B. B
    C. C
    D. D

28. Refer to **Exhibit 3**. The dollar is currently at Point *A*. An increase in the price level in the EU causes a movement to Point _____.
    A. E
    B. B
    C. C
    D. D

Continued...

29. Suppose the exchange rate between the United States and Japan changed from \$1 =150 yen to \$1 = 140 Yen, which of the following statements is *true*?
A. the yen depreciated.
B. the dollar depreciated.
C. the price of yen in dollars decreased.
D. the price of dollars in yen increased.

30. Under a system of floating exchange rates, an excess demand for a particular currency will lead to a(n) _____.
A. appreciation of that currency
B. depreciation of that currency
C. long-term shortage of that currency
D. long-term surplus of that currency

SECTION B: STRUCTURED QUESTIONS (40 marks)

Instruction: Answer all questions in the answer booklet provided.

QUESTION 1 (20 marks)

Refer to the information provided in **Exhibit 4** below to answer the question(s) that follow.

Exhibit 4

	Units Purchased	Price per Unit in 2013	2014	2015	2016
Blueberries	8	\$2.00	\$2.00	\$2.10	\$2.40
Pineapples	5	\$2.00	\$2.50	\$2.50	\$3.00
Cheese	3	\$2.50	\$3.00	\$3.50	\$4.00

a) Suppose 2014 is the base year, find:
i. The price index in 2013. (3 marks)
ii. The price index in 2014. (3 marks)
iii. The price index in 2015. (3 marks)
iv. The price index in 2016. (3 marks)
v. Calculate the inflation rate between 2014 and 2015. (4 marks)

b) Describe the costs and effects of inflation. (4 marks)

[Total: 20 marks]

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QUESTION 2 (20 marks)

a) Discuss **three (3)** disadvantages from International Trade. (9 marks)

b) Describe "Protectionism policy". (4 marks)

c) **Exhibit 5** below shows the export price index, import price index, export quantity and import quantity for 2009 and 2010.

Exhibit 5

Year	Export price index (RM)	Export quantity (unit)	Import price index (RM)	Import quantity (unit)
2009	85	100	110	120
2010	105	100	90	120

i. Find the terms of trade for 2009 and 2010. (3 marks)

ii. Find the trade balance for 2009 and 2010. (4 marks)

[Total: 20 marks]

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